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May 15, 2014

VIA ELECTRONIC FILING

Jocelyn G. Boyd, Esquire
Chief Clerk & Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, South Carolina 29210

Re: Application of Duke Energy Progress, Incorporated for Approval of Costs and Incentives
for Demand-Side Management and Energy Efficiency Programs, Rider DSM/EE-6
Docket No. 2014-89-E

Dear Ms. Boyd:

By this letter, the South Carolina Office of Regulatory Staff encloses our review of Duke Energy Progress, Inc.'s 2014 Annual Update on Demand Side Management and Energy Efficiency Rate Rider 6.

Please feel free to contact me should there be any questions.

Sincerely,



Jeffrey M. Nelson

Encl.

cc: Timika Shafeek-Horton, Esquire (via e-mail)
J. Blanding Holman, IV, Esquire (via e-mail)
Derrick Price Williamson, Esquire (via e-mail)
Stephanie U. Roberts, Esquire (via e-mail)

**South Carolina Office of Regulatory Staff's
Review of Duke Energy Progress, Inc.'s
2014 Annual Update on Demand Side Management and
Energy Efficiency Rider
Docket No. 2014-89-E**

INTRODUCTION

DEP's South Carolina Demand Side Management ("DSM") and Energy Efficiency ("EE") mechanism was established in the stipulation filed on January 23, 2009 in Docket No. 2008-251-E ("Stipulation") and approved by Order No. 2009-373 of the Public Service Commission of South Carolina ("Commission"), dated June 26, 2009. The 2009 Stipulation set forth the Company's DSM/EE mechanism and methodology for recovery of prudently incurred DSM/EE program costs, Net Lost Revenue ("NLR") and a program performance incentive ("PPI") equal to 8% of the net savings for DSM programs and 13% of net savings for EE programs. DSM/EE costs are to be amortized over a period not to exceed ten (10) years; NLR is not amortized and is recovered only for the first thirty-six (36) months after the installation of a measure; and the PPI is amortized for ten (10) years. NLR and the PPI are trued-up following the completion and review of a program's impact evaluation. Large commercial customers using 1 million kilowatt-hours ("kWhs") or greater annually and all industrial customers are eligible to opt out of DEP's DSM/EE programs. Customers that opt out receive a DSM/EE credit. Residential customers are unable to opt out of DSM/EE programs. Since the initial cost recovery filing in Docket 2009-191-E, four (4) additional annual cost recovery applications have been approved in Docket Nos. 2010-161-E, 2011-181-E, 2012-93-E, and 2013-76-E.

On March 3, 2014, the Company filed its request for approval of its sixth DSM/EE Rate Rider to become effective July 1, 2014. On March 7, 2014, the Company submitted its remaining filing requirements. The South Carolina Office of Regulatory Staff ("ORS"), in accordance with the terms of the approved settlement agreement, conducted a review of DEP's filing. ORS's review includes an evaluation of the following three (3) major cost components associated with the Company's DSM and EE programs: program costs, NLR and PPI. ORS audited the Company's costs for the period of April 1, 2013 to December 31, 2013, and reviewed estimated costs from January 1, 2014 through March 31, 2014 ("Test Period"). ORS also reviewed the Company's cost estimates for the period of July 1, 2014 through June 30, 2015 ("Rate Period"). The Company is requesting the updated DSM/EE Rate Rider be effective for bills rendered on and after July 1, 2014.



DSM PROGRAMS

The Company's filing includes a request for cost recovery encompassing fifteen (15) DSM/EE programs. The programs and the launch dates of each program are as follows:

<u>Residential Programs</u>	
Pilot CFL Program	10/01/2007
Home Advantage Program	01/01/2009
Load Control Program (EnergyWise™)	04/01/2009
Energy Efficient Benchmarking	05/06/2009
Solar Water Heating Pilot	06/01/2009
Home Energy Improvement Program	07/01/2009
Low Income – Neighborhood Energy Saver	10/01/2009
Lighting Program	01/01/2010
Appliance Recycling Program	04/15/2010
New Construction Program	01/01/2012
<u>Commercial and Industrial Programs</u>	
Energy Efficiency for Business Program	05/01/2009
CIG Demand Response Automation Program	05/01/2011
Small Business Direct Install Program	11/01/2011
General Service Lighting	04/01/2013
<u>Programs for All Customers</u>	
Distribution System Demand Response ("DSDR")	04/01/2008

The Pilot CFL Program, which was the pilot program for the Residential Lighting Program, ended in 2008. Because of the ten (10) year amortization of program costs and PPI, a residual amount is still included in the current rider for this pilot program.

The Residential Home Advantage Program was terminated March 31, 2013, because more stringent building codes and Energy Star standards which became effective in 2013 made the program no longer cost effective. The program was replaced by the Residential New Construction Program. Recovery of prior program costs and the PPI for the Residential Home Advantage Program are included in the current rider, due to the ten (10) year amortization.



The Residential Solar Water Heating Pilot is no longer an active program, but amortized program costs and PPI are included in the current rider.

Based on recent Evaluation, Measurement & Verification Reports (“EM&V Reports”), the Company determined that a significant portion of lighting products sold under the Residential Lighting Program were purchased for commercial use. This discovery caused the Company to split the original program into two (2) programs – Residential Lighting and General Service Lighting.

The Company does not include PPI amounts for the Distribution System Demand Response (“DSDR”) Program¹, the Residential Low Income Program or the Residential Solar Hot Water Pilot. In addition, the Company excludes from the PPI computation any programs that do not achieve a Total Resource Cost (“TRC”) test² result of 1.0 or higher. The 2013 vintages of the Residential Home Advantage, Residential Home Energy Improvement, Residential New Construction, and Small Business Direct Install programs did not meet the TRC threshold and were thus excluded from the PPI computation. In addition, the 2014 vintages of the Residential Home Energy Improvement, Residential Home Advantage and Small Business Direct Install programs were excluded from the PPI computations on the same basis.

Based on information provided by the Company, the programs appear to be performing well overall. The Company found it achieved 122% of the forecasted 2013 energy savings but because of the delay in the implementation of the DSDR Program, achieved only 50% of the forecasted 2013 peak demand reductions. Looking forward, the Company expects to achieve 119% of the previously forecasted 2014 overall peak demand reduction. However, this estimate primarily hinges on the peak demand reductions of the DSDR Program, which have yet to be validated. In fact, as of December 31, 2013, DSDR was not activated except for testing. ORS expects to see validated peak demand impacts of DSDR in the Company’s next filing.

¹ The DSDR Program is not a typical DSM/EE program. It is a system of electrical equipment and operating controls designed to enable the Company to reduce peak demand using the distribution system to reduce generation requirements. Equipment and controls include items such as new line voltage regulators, additional phase wires, the relocation and addition of line capacitors, modifications of tap line configurations, sensors and intelligent controls on equipment and substations, the enhancement of information technology systems, and a new two-way communications system.

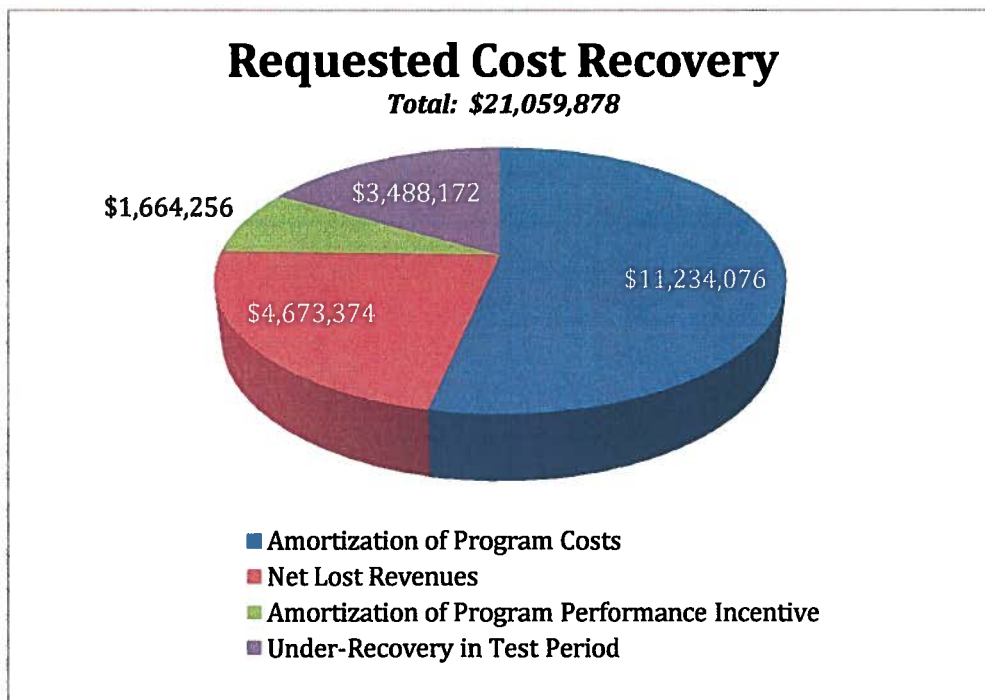
² The TRC test compares the benefits a program generates by avoiding costs to the generation system to the total costs of the program to the Company and the customers participating.



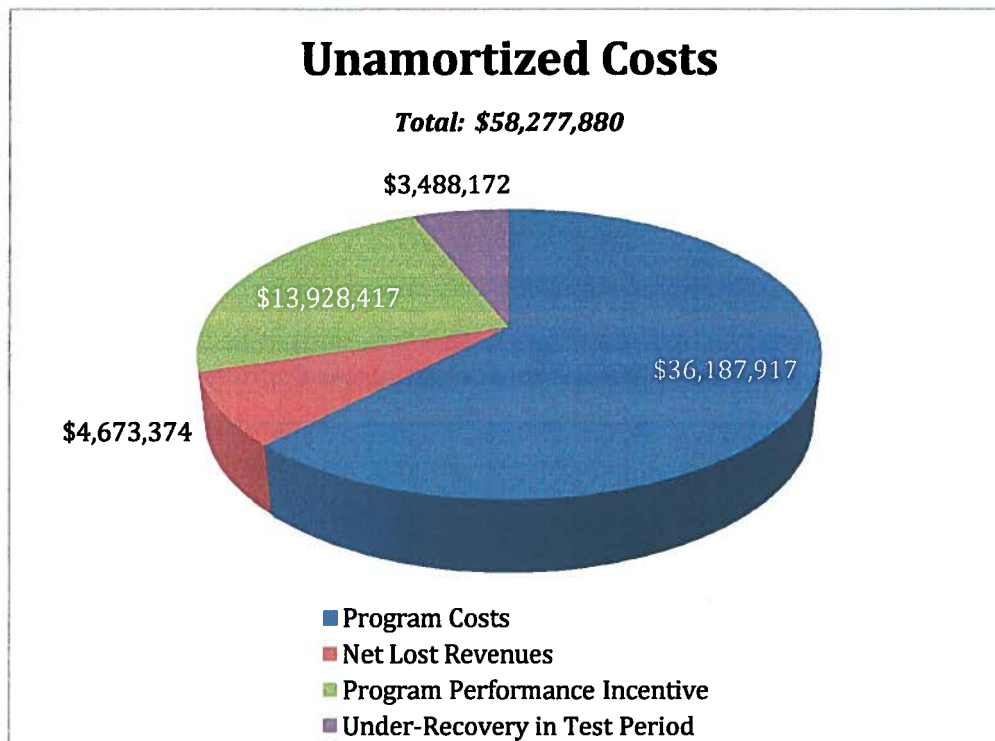
PROGRAM COST EVALUATION

The Company's approved cost recovery process allows DEP to amortize certain costs over ten (10) years. The total amortized cost for DEP's filing is \$21,059,878. This is the dollar amount the Company is seeking to recover in its filing. For this requested amount, the Company projects an energy savings of 173,408,000 kWhs in 2014, which equates to 12.1 cents/kWh-saved in 2014. Assuming an average five (5) year life for the measures installed in 2013, the lifetime costs average 2.4 cents/kWh-saved.

The total amortized cost of \$21,059,878 is comprised of program costs, NLR, PPI and over/under collections during the Test Period. DEP amortizes its program costs for up to ten (10) years, including carrying costs, resulting in a request of \$11,234,076, or 53.3% of the total amortized cost. The Company is requesting recovery for NLR of \$4,673,374, which is 22.2% of the total amortized amount. However, DEP does not amortize its NLR. The entire NLR is recovered during the Rate Period. DEP is also requesting recovery of \$1,664,256, or 7.9% of the total amortized cost as a PPI to implement the DSM and EE programs. DEP amortizes this PPI over ten (10) years, without carrying costs. Finally, DEP is requesting \$3,488,172, or 16.6% of the total amortized cost as the under-recovery of actual program costs during the Test Period.



The total approximate unamortized cost for DEP's filing, including both the Test Period and the Rate Period, is \$58,277,880. This amount includes program costs of \$36,187,917 (62.1% of the total unamortized cost); NLR of \$4,673,374 (8.0% of the total unamortized cost); a PPI amount of \$13,928,417 (23.9% of the total unamortized cost); and an under-recovery in the Test Period of \$3,488,172 (6.0% of the total unamortized cost).



A breakdown of the major cost components of this filing and the development of the billing factors is shown in Exhibit 1. The requested revenues from residential customers are recovered from all residential ratepayers, while the non-residential revenues are recovered solely from those non-residential ratepayers that do not opt-out of the programs.

EVALUATION, MEASUREMENT & VERIFICATION

The Company has received EM&V Reports on the 2012 vintages of the Home Energy Improvement Program, the Energy Efficient Lighting Programs, the Home Advantage Program, the Energy Efficiency for Business Program, the Residential Load Control Program, and the CIG Demand Response Automation Program. These EM&V Reports were used by the Company to true-up the 2012 vintage of these programs. The overall net revenue impact to South Carolina was a decrease in the amount of \$18,104.



ESTIMATES USED IN THE FILING

The programs' avoided energy, avoided capacity, NLR, and PPI amounts are primarily estimates developed with the Strategist planning model and the Company's most recent planning data. Thus, nearly all the dollar amounts in the filing, with the exception of the Test Period program costs and the trued-up vintages of certain programs, are estimates. The estimated values and dollar amounts will be trued-up in future filings, based on EM&V results. ORS is familiar with the Strategist model and finds it to be a reasonable tool for generating these projections.

FORECASTED RETAIL SALES

The Company has utilized the forecast of retail sales prepared for the December 2013 Jurisdictional Forecast. ORS is familiar with the methodology used to generate the sales forecast and finds it to be a reasonable approach to establish rates.

ENERGY AND PEAK DEMAND SAVINGS

The Company projects that by the end of 2014 the DSM and EE programs will have reduced annual electric usage by a cumulative 1,062,285 megawatt-hours and will have the capability to reduce the annual one-hour peak usage by 369 megawatts. These are considerable savings and may provide DEP the ability to avoid or defer the construction of new generating facilities.

OPT-OUTS

In its 2013 filing, the Company reported that 162 industrial and commercial customers, which represent 53% of DEP's industrial load, opted out of the Company's DSM and EE programs. In this filing, the Company reports that opt-outs of its DSM and EE programs total 160 industrial and commercial customers and represent approximately 58% of DEP's industrial and commercial load.

RATE IMPACT

The following table compares the rates which were approved in 2013 to the rates requested for the 2014 DSM/EE Rate Riders:

DSM/EE Rider	Approved 2013 Rate (cents/kWh)	Requested 2014 Rate (cents/kWh)	Increase of 2014 over 2013 Rate (cents/kWh)
Residential	0.560	0.552	(0.008)
General Service	0.265	0.550	0.285

ORS recommends reducing the Company's request by \$6,076 to remove 50% of employee incentives, consistent with ORS's recommendations for the treatment of employee incentives in other cases before the Commission, and other non-allowable expenses. However, this revenue reduction does not impact the overall rate calculation. The requested decrease in the DSM/EE Rate Rider for an average residential customer using 1,000 kWh per month will reduce the customer's monthly bill by approximately eight (8) cents.

CONCLUSION

ORS finds that the updated DSM/EE Rate Riders were developed in accordance with the terms and conditions set forth as per Commission order and are based on reasonable estimates of participation in the Company's DSM and EE programs. The Company is requesting the updated DSM/EE Rate Riders be effective for bills rendered on and after July 1, 2014.



DEP Revenue Request for DSM/EE Programs

For the Rate Period of July 1, 2014 - June 30, 2015

	Residential		General Service		Totals		Grand Total
	EE Portion	DSM Portion	EE Portion	DSM Portion	EE Portion	DSM Portion	
(1) Test Period Under (Over) Recovery as of March 31, 2014	\$426,213	\$186,134	\$2,257,441	\$618,384	\$2,683,654	\$804,518	\$3,488,172
(2) Rate Period Estimated Program Costs excluding DSDR	\$3,443,284	\$1,418,109	\$2,594,021	\$269,078	\$6,037,305	\$1,687,187	\$7,724,492
(3) DSDR Rate Period Estimated Program Costs	\$0	\$3,202,466	\$0	\$1,794,024	\$0	\$4,996,490	\$4,996,490
(4) Rate Period Amortized Program Costs	\$428,941	\$141,811	\$269,608	\$26,908	\$698,449	\$168,719	\$867,168
(5) DSDR Costs	\$0	\$3,202,466	\$0	\$1,794,024	\$0	\$4,996,490	\$4,996,490
(6) Prior Period Amortization	\$1,530,601	\$654,378	\$714,990	\$77,955	\$2,245,591	\$732,333	\$2,977,924
(7) A&G and Carrying Costs	\$927,092	\$785,806	\$465,854	\$213,742	\$1,392,946	\$999,548	\$2,392,494
(8) Total Revenue Requested for Program Costs = (4)+(5)+(6)+(7)	\$2,886,534	\$4,784,461	\$1,450,452	\$2,112,629	\$4,336,986	\$6,897,090	\$11,234,076
(9) Net Lost Revenues	\$2,343,704	\$0	\$2,329,670	\$0	\$4,673,374	\$0	\$4,673,374
(10) Amortization of PPI	\$552,114	\$401,752	\$687,943	\$22,447	\$1,240,057	\$424,199	\$1,664,256
(11) Total Revenue Request = (1)+(8)+(9)+(10)	\$6,208,565	\$5,372,347	\$6,725,506	\$2,753,460	\$12,934,071	\$8,125,807	\$21,059,878
(12) South Carolina Rate Class kWh Sales	2,137,377,003	2,137,377,003	1,729,749,914	1,729,749,914			
(13) Initial Rate Riders (Cents/KWh) = $100 \times ((11)/(12))$	0.2905	0.2514	0.3888	0.1592			
(14) RECD and Uncollectible Adjustment	0.0079		0.0002				
(15) Gross Receipts Tax and Regulatory Fee Adjustment	0.0020		0.0020				
(16) Total Residential Rider (Cents/KWh) = (13)EE+(13)DSM+(14)+(15)	0.552						
(17) Total General Service Rider (Cents/KWh) = (13)EE+(13)DSM+(14)+(15)			0.550				